



# Monthly Economic Update

## October 2002



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This report is a monthly update to the Quarterly Economic Indicators Report, both of which are available on the internet @ <http://www.co.mo.md.us/services/finance> For questions, please call (240) 777-8866.

➤ **Economic Conditions.** Led by consumer spending, business investment in inventories and equipment and software, and government spending, the national economy grew at a larger than expected 4.0% during the 3<sup>rd</sup> quarter 2002. A rebound in purchases of durable goods, particularly automobiles, led consumer spending for the first time since the 4<sup>th</sup> quarter of 2001. Following six consecutive negative quarters, businesses are beginning to replace their obsolete systems. This improvement is reflected in a surge in business investment in equipment and software over the past six months.

However, market expectations for the fourth quarter are not as optimistic. Economic growth is expected to decline to 1.4%, which is attributed to continued sluggish industrial production, weak payroll employment, and weak consumer sentiment all based on international events such as a weak global economy and the war on terrorism. While the index of leading indicators increased 2.4% during the past ten months compared to the similar ten-month recessionary period last year, the index has declined five out of the past seven months. Consumer confidence continued to decline in October reaching its lowest point since November 1993.

While some major economic indicators portend a sluggish period during late autumn and early winter, low inflation and interest rates remain the bright spot for a healthy expansion during the early and middle part of 2003.

➤ **Financial Markets.** Many investors and stock strategists believe that a major cycle bottom occurred during the early part of October. The S&P-500 stock index declined 32% for the year and reached its lowest bear market point on October 9<sup>th</sup>. This low was associated with extreme pessimism about the outlook for the economy and earnings, and a threat of war with Iraq and the impact on oil prices. However, such sentiment moderated during the

month and the index increased 8.6%, the largest monthly increase since the bull market began.

Interest rates have remained at historic lows due to the Fed's accommodative monetary policy. Because of such policy, the slope of the yield curve of U.S. Treasury securities was sharply positive indicating a continuation of the expansion.

While both the stock market index and interest rates exhibited positive trends during October, the overall effects of the bull market and low interest rates will have a negative effect on the County's revenues for the remainder of the fiscal year and into fiscal year 2004. Income tax collections and investment income are expected to be below previous budget estimates.

➤ **Montgomery County Economic Indicators.** While the national economy experienced sluggish activity during October, the local economy had a number of bright spots particularly in the residential real estate market, retail sales, and unemployment rate.

Average and median home prices continued their rapid appreciation during September. The average price was 9.2% and the median price was 14.5% above the same month last year. Because of the continuing price appreciation in home prices, real property taxes and transfer and recordation taxes for 2003 and 2004 are expected to be higher than previous budget estimates, which will partially offset declines in income tax collections and investment income.

Retail sales in Montgomery County increased 1.4% through August compared to the first eight months of 2001. Increases in purchases of automobiles, building and industrial supplies, and utilities and transportation were the major contributors. The inflation rate at 2.1% for the Washington area was slightly above the national average but remained fairly constant during the year. The unemployment rate for the County has moderated to just 2.6% in August from a recent high of 3.3% in April, and is one-half the national rate and significantly below the State rate of 4.2%.

SELECTED ECONOMIC INDICATORS	Reporting	Current	Prior Year's	Year To-Date		
	Period	Period	Period	2002	2001	2001
Leading Indicators						
National	September	-0.2%		2.5%		2.5%
Washington MSA	August	0.3%		0.1%		-0.9%
Consumer Confidence Index						
National	October	-15.3%		-9.6%		-26.4%
South Atlantic Region	October	-10.4%		-7.3%		-23.9%
Consumer Price Index						
All Items						
National	September	1.5%		1.4%		2.9%
Washington - Baltimore CMSA	September	2.1%		2.1%		2.6%
Core CPI						
National	September	2.2%		2.4%		2.7%
Washington - Baltimore CMSA	September	2.7%		3.1%		3.1%
Retail Trade						
National (sales)	September	5.7%		3.9%		3.7%
Maryland (tax)	August	4.6%		1.9%		3.0%
Montgomery County (tax)	August	4.9%		1.4%		3.8%
Employment						
National	September	135,063,000	134,868,000	134,155,333	135,215,444	135,073,000
- Percent Change		0.1%		-0.8%		-0.1%
Washington PMSA (at place)	August	2,776,800	2,794,000	2,785,000	2,783,500	2,831,800
- Percent Change		-0.6%		0.1%		2.8%
Montgomery County (resident)	August	492,220	481,988	485,686	477,229	477,701
- Percent Change		2.1%		1.8%		0.7%
Montgomery County (payroll)	March	450,704	448,501	447,690	445,968	447,744
- Percent Change		0.5%		0.4%		4.9%
Unemployment						
National	September	5.4%	4.7%	5.9%	4.6%	4.8%
Maryland	August	4.2%	4.1%	4.7%	4.0%	4.1%
Washington PMSA	August	3.6%	3.3%	3.8%	2.8%	3.1%
Montgomery County	August	2.6%	2.5%	3.0%	2.1%	2.3%
Construction						
Project Cost - Montgomery County						
Total (\$ thousand)	September	\$101,662	\$216,121	\$1,207,222	\$1,138,059	\$1,353,664
- Percent Change		-53.0%		6.1%		15.4%
Residential (\$ thousand)	September	\$82,894	\$107,107	\$547,914	\$628,206	\$682,768
- Percent Change		-22.6%		-12.8%		17.2%
Non-Residential (\$ thousand)	September	\$18,768	\$109,014	\$659,308	\$509,853	\$670,896
- Percent Change		-82.8%		29.3%		13.6%
Building Permits (Residential)						
National	September	143,526	124,376	1,305,331	1,244,316	1,610,766
- Percent Change		15.4%		4.9%		1.2%
Maryland	September	2,548	1,974	21,862	21,404	28,412
- Percent Change		29.1%		2.1%		-6.4%
Montgomery County	September	543	376	3,215	3,956	5,091
- Percent Change		44.4%		-18.7%		13.8%
Building Permits (Non-Residential)						
Montgomery County	September	152	168	1,428	1,632	2,102
- Percent Change		-9.5%		-12.5%		23.9%
Real Estate						
National						
Sales	September	5,400,000	5,010,000	5,560,000	5,310,000	5,296,000
- Percent Change		7.8%		4.7%		2.8%
Median Price	September	\$159,000	\$147,400	\$156,800	\$145,800	\$147,800
- Percent Change		7.9%		7.5%		6.3%
Montgomery County						
Sales	September	1,349	1,193	11,612	11,909	15,489
- Percent Change		13.1%		-2.5%		4.8%
Average Price	September	\$310,453	\$284,365	\$314,500	\$272,706	\$274,522
- Percent Change		9.2%		15.3%		8.1%
Median Price	September	\$252,000	\$220,000	\$247,217	\$207,033	\$215,000
- Percent Change		14.5%		19.4%		13.2%